

The lesson from Brexit is that too much market and too little state invites a backlash

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Several commentators have suggested that the UK's decision to leave the European Union illustrates that governments must pay greater attention to the 'losers' from globalisation. [Kevin O'Rourke](#) argues that this fact has long been obvious. As the historical record demonstrates plainly and repeatedly, too much market and too little state invites a backlash. He writes that markets and states should be viewed as political complements, not substitutes.



It has recently become commonplace to argue that globalisation can leave people behind, and that this can have severe political consequences. Since 23 June, this has even become conventional wisdom. While I welcome this belated acceptance of the blindingly obvious, I can't but help feeling a little frustrated, since this has been self-evident for many years now. What we are seeing, in part, is what happens to conventional wisdom when, all of a sudden, it finds that it can no longer dismiss as irrelevant something that had been staring it in the face for a long time.

The main point of my 1999 book with Jeff Williamson, [Globalization and History](#), was that globalisation produces both winners and losers, and that this can lead to an anti-globalisation backlash. We argued this based on late-19th century evidence. Then, the main losers from trade were European landowners, who found themselves competing with an elastic supply of cheap New World land. The result was that in Germany and France, Italy and Sweden, the move towards ever-freer trade that had been ongoing for several years was halted, and replaced by a shift towards protection that benefited not only agricultural interests, but industrial ones as well. Meanwhile, across the Atlantic, immigration restrictions were gradually tightened, as workers found themselves competing with European migrants coming from ever-poorer source countries.

While Jeff and I were firmly focused on economic history, we were writing with half an eye on the 'trade and wages' debate that was raging during the 1990s. There was an obvious potential parallel between 19th-century European landowners, newly exposed to competition with elastic supplies of New World land, and late 20th-century OECD unskilled workers, newly exposed to competition with elastic supplies of Asian, and especially Chinese, labour. In our concluding chapter, we wrote that:

"A focus of this book has been the political implications of globalization, and the lessons are sobering. Politicians, journalists, and market analysts have a tendency to extrapolate the immediate past into the indefinite future, and such thinking suggests that the world is irreversibly headed toward ever greater levels of economic integration. The historical record suggests the contrary... unless politicians worry about who gains and who loses, they may be forced by the electorate to stop efforts to strengthen global economy links, and perhaps even to dismantle them... The globalization experience of the Atlantic economy prior to the Great War speaks directly and eloquently to globalization debates today. Economists who base their views of globalization, convergence, inequality, and policy solely on the years since 1970 are making a great mistake. We hope that this book will help them to avoid that mistake— or remedy it."

This time it is not different

You may argue that the economic history of a century ago is irrelevant – after all, this time is different. But ever since the beginning of the present century, at the very latest, it has been obvious that the politics of globalisation today bears a family resemblance to that of 100 years ago.

It was as long ago as 2001 that Kenneth Scheve and Matthew Slaughter published an [article](#) finding that the so called [Heckscher-Ohlin logic](#) did a pretty good job of explaining American attitudes towards trade – lower-skilled workers were more protectionist. Later work extended this finding to the rest of the world. If the high skilled were more favourably inclined towards free trade in all countries, this would not be consistent with Heckscher-Ohlin theory, but that is not what the opinion survey evidence suggested – the Scheve-Slaughter finding [held in rich countries](#), but not in [poor ones](#).

You may further argue that such political science evidence is irrelevant, or at least that conventional wisdom could be forgiven for ignoring it. But by the first decade of the 21st century, again at the very latest, it was clear that these forces could have tangible political effects. In 2005, a French referendum rejected the so-called ‘Constitutional Treaty’ by a convincing margin. While the treaty itself was a technical document largely relating to decision-making procedures inside the EU, the referendum campaign ended up becoming, to a very large extent, a debate about globalisation in its local, European manifestation.

Opponents of the treaty pointed to the outsourcing of jobs to cheap labour competitors in Eastern Europe, and to the famous Polish plumber. Predictably enough, professionals voted overwhelmingly in favour of the treaty, while blue-collar workers, clerical workers and farmers rejected it. The net result was a clear rejection of the treaty.

Lessons not learned

Shamefully, the response was to repackage the treaty, give it a new name, and push it through regardless – a shabby manoeuvre that has done much to fuel Euroscepticism in France. There was of course no referendum on the Lisbon Treaty in that country, but there was in Ireland in 2008. Once again, a clear class divide opened up, with rich areas overwhelmingly supporting Lisbon, and poor areas overwhelmingly rejecting it. Survey evidence commissioned afterwards by the Irish government suggested that what canvassers on the doorsteps had found was indeed the case – [hostility towards immigration](#) in the poorer parts of Dublin was an [important factor](#) explaining the “No” vote there.

For a long time, conventional wisdom ignored these rather large straws in the wind – after all, the Irish could always be asked to vote again, while the French could always be told that they couldn’t vote again. And so the show could go on. But now Brexit is happening, and the obvious cannot be ignored any longer.

Recent work [suggests](#) that exposure to Chinese import competition was a common factor in many British regions that voted to leave the EU. If this finding survives the scholarly scrutiny that it deserves, it will hardly come as a surprise. But it is nevertheless crucial, since these are precisely the kinds of regions that are voting for the National Front in France. And unlike Britain, France is absolutely central to the European project.

What can be done? Great openness requires greater governments

This is where Dani Rodrik’s [finding](#) that more open states had bigger governments in the late 20th century comes in. Dani – who was long ago [asking](#) whether globalisation had gone too far – argues that markets expose workers to risk, and that government expenditure of various sorts can help protect them from those risks.

In a [series of articles](#), Michael Huberman showed that this correlation between states and markets was present before 1914 as well. Countries with more liberal trade policies tended to have more advanced social protections of various sorts, and this helped maintain political support for openness.

Anti-immigration sentiment was clearly crucial in delivering an anti-EU vote in England. And if you talk to ordinary people, it seems clear that competition for scarce public housing and other public services was one important factor behind this. But if the problem was a lack of services per capita, then there were two possible solutions: reduce the number of ‘capitas’ by restricting immigration; or increase the supply of services. It is astonishing in retrospect how few people argued strongly for more services rather than fewer people.

Concluding remarks and possible solutions

If the Tories had really wanted to maintain support for the EU, investment in public services and public housing would have been the way to do it. If these had been elastically supplied, that would have muted the impression that there was a zero-sum competition between natives and immigrants. It wouldn't have satisfied the xenophobes, but not all anti-immigrant voters are xenophobes. But of course the Tories were never going to do that, at least not with George Osborne at the helm.

If the English want continued Single Market access, they will have to swallow continued labour mobility. There are complementary domestic policies that could help in making that politically feasible. We will have to wait and see what the English decide. But there are also lessons for the 27 remaining EU states (28 if, as I hope, Scotland remains a member). Too much market and too little state invites a backlash. Take the politics into account, and it becomes clear (as Dani Rodrik has often argued) that markets and states are complements, not substitutes.

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Note: This article originally appeared at [VoxEU](#) and forms a chapter in the VoxEU ebook, [Brexit Beckons: Thinking ahead by leading economists](#). It gives the views of the author, not the position of EUROPP – European Politics and Policy, nor of the London School of Economics. Featured image credit: [Bankenverband](#) (CC-BY-SA-2.0)

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